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File: [REDACTED] 1999/09/10 : CIA-RDP83-00423R001600900001-4

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25X1A2g

Country : Saudi Arabia
Subject : Resume of Events Leading to Termination of Govenco
25X1A6a Contract with Saudi Arabian Government

Place Acquired : [REDACTED]
Date Acquired : late Aug 54
Date of Info : 13 Jul - 18 Aug 54

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Source: [REDACTED]

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1. On 13 Jul 54 the Saudi Government ordered that no Germans could leave the country. First rumors had it that this action was prompted by reports that Julius Berger Co, partner in Govenco, was owned by Jewish capital and that proceeds from its contracts were reaching Israel. Then on the afternoon of 19 July the Government closed Govenco's Purchasing Office and on the following morning all the company's offices were secured by an armed guard. The outside operation, however, continued to function. At this time what appeared to be the real reason for the Government's action made itself apparent. The Head of Govenco's Local Purchasing Office, Mr [fnu] Bonza, who was discharged as the result of a dispute with his superiors and reportedly detained in the Compound to await deportation from the country, managed to reach Prince Faisal to whom he allegedly revealed that: (1) irregularities were occurring in Govenco's purchasing operations; (2) that payments were being made to certain Government officials; and (3) that Julius Berger Co had Jewish connections. Presumably on the basis of Bonza's testimony, Faisal ordered all Germans detained in the country and subsequently closed Govenco's offices. Then he appointed a committee of six, headed by Prince Sultan, to conduct a full investigation of the German company's records.
2. On 4 August, Mr Otto Starke, President of Govenco, was summoned to appear before the Deputy Director of Public Security and was told that, by order of Amir Faisal, the Govenco contract with the Government was annulled. A subsequent order forbade Starke to have any contact with Govenco employees, who, it is understood, were being offered separate contracts with the Saudi Arab Government. One unsubstantiated report had it that the arrest of the Minister of Finance, by order of Amir Sultan, was prevented only by His Majesty's personal intervention. Other information picked up was to the effect that the local Govenco bank accounts were frozen,

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that a Department of Public Works was being set up under Amir Sultan, and that most work now being carried out by Govenco will continue but as a direct Saudi Government Public Works operation. No official announcement of any of the foregoing has, however, as yet been made.

3. As far as we can determine the leading accusation involving Govenco's marking up original invoices before presenting them to the Government for collection has not been proved. The second indictment that Govenco was paying out large amounts to Government officials has reportedly been substantiated by the committee, and while this practice would not seem to be incriminating on legal grounds, it has nevertheless cast a dark shadow over Govenco's operations. Little more has been said about Julius Berger's supposed Jewish connections.
4. On the basis of present findings, the Government's reaction appears to be that it has been paying excessively for Govenco's services, especially when the German company can afford to share its profits on a generous basis with certain local parties and still realize a satisfactory profit itself. Added to this, Govenco's record of accomplishments has been anything but impressive, though it cannot be entirely blamed for this fact. It appears doubtful that the final results of the investigating committee will cause Govenco's complete downfall. There appear to be too many factors involved, political and otherwise, to render a clean-cut decision possible. It appears certain, however, that Govenco's position and reputation have been severely damaged, and if German personnel, under whatever contractual arrangements, continue to work in Saudi Arabia, they will be under considerable suspicion and will doubtless encounter further difficulties accordingly.

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